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DAN F. ARNETT  
CHIEF OF STAFF

May 18, 2005

**VIA HAND DELIVERY**

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

Re: Carolina Power & Light Company dba Progress Energy Carolinas, Inc. - Annual  
Review of Base Rates for Fuel Costs.  
Docket No. 2005-1-E

Dear Mr. Terreni:

Enclosed for filing please find sixteen (16) copies each of the Settlement Agreement and Joint Motion Requesting Approval of Settlement Agreement in the above-referenced matter. Please date stamp one copy and return it to me via our courier. As provided in the Settlement Agreement, faxed signatures are attached. Original signatures will be provided as soon as possible.

We have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

  
Shannon Bowyer Hudson

SBH/wot  
Enclosures

RECEIVED  
2005 MAY 18 PM 12:11  
SC PUBLIC SERVICE  
COMMISSION

Mr. Charles L.A. Terreni

May 18, 2005

Page 2

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cc:    Len S. Anthony, Esquire (w/enclosures)  
       Scott Elliott, Esquire (w/enclosures)  
       Thomas S. Mullikin, Esquire (w/enclosures)  
       Garrett A. Stone, Esquire (w/enclosures)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2005-1-E**

RECEIVED  
2005 MAY 18 PM 12:14  
SC PUBLIC SERVICE  
COMMISSION

IN RE: Carolina Power & Light Company    )  
      d/b/a Progress Energy Carolinas, Inc.)  
      Annual Review of Base Rates for    )  
      Fuel                                        )  
\_\_\_\_\_)

**CERTIFICATE OF SERVICE**

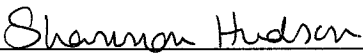
This is to certify that I, Shannon B. Hudson, an employee with the Office of Regulatory Staff, have this date served one (1) copy each of the **Settlement Agreement and Joint Motion Requesting Approval of Settlement Agreement** in the above-referenced matter to the person(s) named below via electronic mail and by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Len S. Anthony, Esquire  
Progress Energy Services Company  
PO Box 1551/PEB 17A4  
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Shannon B. Hudson

May 18, 2005  
Columbia, South Carolina

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2005-1-E**  
**MAY 18, 2005**

RECEIVED  
2005 MAY 18 PM 12:14  
SC PUBLIC SERVICE  
COMMISSION

IN RE:	)	
	)	
Carolina Power & Light Company d/b/a	)	<b>SETTLEMENT AGREEMENT</b>
Progress Energy Carolinas, Inc. -	)	
Annual Review of Base Rates for	)	
Fuel Costs	)	
	)	
	)	
_____	)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), Nucor Steel-South Carolina ("Nucor Steel"), and Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. ("PEC") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure established in S.C. Code Ann. §58-27-865 (Supp. 2004), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions, most recently on May 12, 2005, to determine if a settlement of the issues would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interest and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission, without objection, change, amendment or cross-examination, the pre-filed revised direct testimony of ORS witnesses A.R. "Randy" Watts and the pre-filed direct testimony with errata sheet of Jacqueline R. Cherry. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than this Settlement Agreement.

2. As a compromise to the positions advanced by ORS, SCEUC, Nucor Steel, and PEC, all Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties:

(A) The Parties agree that:

- (1) PEC's under-recovered fuel costs for the period January 1, 2004 through, June 30, 2005, are in the amount of \$35,556,987 (this estimated under recovery consists of \$23,557,194 historical under-recovered costs through March 31, 2005 and \$11,999,793 estimated under recovered costs for the period April 1, 2005 through June 30, 2005);
- (2) the Parties agree that any and all challenges to PEC's historical fuel costs for the period ending March 31, 2005 are not subject to further review; however, fuel costs for periods beginning on April 1, 2005 and thereafter shall be open issues in future proceedings (and will continue to be trued-up against actual costs in such proceedings) held under S.C. Code Ann. § 58-27-865 (Supp. 2004); and
- (3) Notwithstanding the provision of Subsection (E) below, PEC shall be allowed to recover an amount equal to the under recovery at June 30,

2005, referenced in subsection (A)(1) above, spread over the three (3) year period, July 1, 2005 through June 30, 2008; an amount equal to the amount of the under-recovery remaining and not recovered prior to July 1, 2006 (to the degree not offset by an over-recovery in actual fuel costs for the first year) shall be recovered half in the second year in equal monthly installments and half in the third year (to the degree not offset by an over-recovery in actual fuel costs for the second year) in equal monthly installments; and effective July 1, 2006, through June 30, 2008, PEC shall be allowed to charge and recover carrying costs on the monthly unpaid balance of such amount at an interest rate of six percent (6%) compounded annually.

(B) While the Parties recognize that S.C. Code Ann. §58-27-865(B) indicates that any under recovery should be recovered during the next twelve months, the Parties also recognize that the Commission previously allowed an amortization of an amount equal to an under recovery over a period greater than one year. See Commission Order No. 2001-397 issued in Docket No. 2001-2-E, SCE&G – Annual Review of Base Rates for Fuel Costs and Commission Order No. 2005-187 issued in Docket No. 2005-2-E, SCE&G – Annual Review of Base Rates for Fuel Costs. In addition, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-10(B) (added by Act 175), and ORS and the other Parties hereto believe such a three year recovery period would serve the public interest. S.C. Code §58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and

(3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services."

The Parties agree that the proposed amortization over a three year period of an amount equal to the under recovery would balance concerns of the using public while preserving the financial integrity of the Company. Further, the ORS and the other Parties also believe a three year recovery period would not inhibit, but would promote economic development, when compared with the alternative of a shorter recovery period.

(C) The Parties agree to the following adjustments to the fuel costs under recovery for the period under review and to the fuel cost projections for the next review period:

- (1) a reduction of \$21,276,420 to total fuel cost projections on a system basis to correct certain errors identified by ORS in the application of the 10% surcharge for Norfolk and Southern freight rates in 2006 and in the application of the BTU premium on coal costs related to received tons vs. burned tons for the twelve months ending June 2006;
- (2) a reduction to total fuel cost projections on a system basis of \$12,810,800 to remove adders for winter and non-winter periods to the industry standard projected costs for natural gas for the twelve months ending June 2006;
- (3) a reduction of \$16,485,400 to total fuel cost projections on a system basis to remove all transmission capacity charges associated with "firm generation capacity purchases," specifically including all transmission capacity charges associated with purchases from AEP/Rockport and Broad River;
- (4) a reduction of \$ 2,018,097 from the review period under-recovery (jurisdictional) reflecting ORS witness Cherry's accounting adjustments; and

- (5) a reduction of \$ 3,422,633 from the January 2004 through June 2005 review period under-recovery (jurisdictional) to remove all transmission capacity charges associated with "firm generation capacity purchases, specifically including all transmission capacity charges associated with purchases from AEP/Rockport and Broad River.

(D) Unless and until there is a change in the fuel statute specifically authorizing such recovery [S.C. Code Ann. § 58-27-865 (Supp. 2004)], PEC agrees that, in future proceedings, it will not recover or seek recovery of transmission capacity charges associated with "firm generation capacity purchases", specifically including, but not limited to, all transmission capacity charges associated with purchases from AEP/Rockport and Broad River, as well as transmission capacity charges associated with any future firm generation capacity purchases.

(E) The parties agree and recommend that the first dollars recovered in the succeeding twelve months beginning July 2005 shall be applied to the under recovery so that in the next fuel proceeding for PEC any under recovery will be for the period July 2005 through June 2006.

(F) The Parties agree that the collection of the under recovered balance as agreed to herein will serve to protect the integrity of the statutory scheme as well as the financial integrity of the Company.

(G) The Parties also agree that in an effort to keep the Parties and PEC's customers informed of the over/under recovery balances related to fuel costs and of PEC's best efforts to forecast the expected fuel factor to be set at its next annual fuel proceeding. PEC will provide to SCEUC, Nucor Steel and, where applicable, its customers the following:

- (1) copies of the monthly fuel recovery reports currently filed with the PSC and with the ORS; and
- (2) a quarterly forecast beginning October 1, 2005, of the expected fuel factor to be set at its next

annual fuel proceeding based upon PEC's historical over/under recovery to date and PEC's forecast of prices for natural gas, coal, oil and other fuel required for generation of electricity. PEC will use its best efforts in making these forecasts. To the extent that the forecast data required hereunder is confidential, any party or customer that wants forecasted fuel data will have to sign a non-disclosure agreement agreeing to protect the data from public disclosure and to only disclose it to employees or agents with a need to know.

3. For purposes of this Settlement Agreement, all Parties agree that the appropriate fuel factor for PEC to charge for the period beginning with the first billing cycle in July 2005 extending through the last billing cycle of June 2006 is 2.200 cents per kwh.

4. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

5. If the Commission should decline to approve this agreement in its entirety, then any Party desiring to do so may at its option withdraw from the agreement without penalty, within 3 days of receiving notice of the decision, by providing written notice of withdrawal via electronic mail to all parties in that time period.

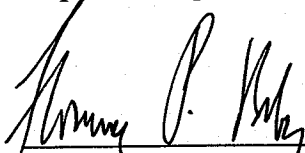
6. This agreement shall be interpreted according to South Carolina law.

The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement

Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

**Representing the Office of Regulatory Staff**



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Florence P. Belser, Esquire  
Wendy B. Cartledge, Esquire  
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WE AGREE:

**Representing South Carolina Energy Users Committee**

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Scott Elliot, Esquire  
**Elliot & Elliot, P.A.**  
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Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

**Representing the Office of Regulatory Staff**

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WE AGREE:

**Representing South Carolina Energy Users Committee**

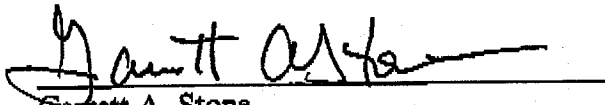


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WE AGREE:

**Representing Nucor Steel - South Carolina**



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WE AGREE:

**Representing Carolina Power & Light d/b/a Progress Energy Carolinas, Inc.**

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Len S. Anthony, Esquire

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WE AGREE:

**Representing Nucor Steel - South Carolina**

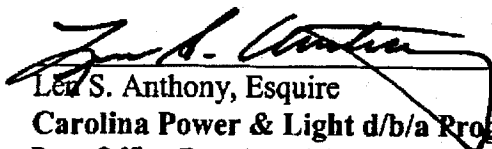
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WE AGREE:

**Representing Carolina Power & Light d/b/a Progress Energy Carolinas, Inc.**



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